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SUBJECT: Turmoil in the German Auto Industry - Opel's Fate Hangs in the Balance

REF: A) BERLIN 0214, B) BERLIN 0272

¶1. (SBU) Summary. GM subsidiary Opel is in danger of going under, and is desperately looking for a new investor. Six potential investors have submitted proposals, including Fiat, and Canadian parts maker Magna and its Russian partners. It is difficult to envisage Opel's survival without German government financial guarantees, which are not yet forthcoming. Instead, Berlin is floating a proposal to set up a "trust" to provide Opel with interim funding until an investment deal is sealed. While the German government maintains that it is not providing direct aid to the troubled automaker, the loans would come from state banks funded by the federal government. End Summary.

A Fast Moving Target

¶2. (U) Opel's fate is the biggest cause for concern in the German auto industry. With Opel's parent firm GM on the verge of bankruptcy, the company is looking for an investor to buy up GM shares. On May 4, Fiat CEO Sergio Marchionne presented his plan in Berlin. It would require \$6.6 billion to \$9.3 billion loan from the German government, coupled with a 22 percent reduction in Opel capacity. Marchionne promised to rely on "trimming" rather than plant closures to meet his targets.

Darkness at Opel

¶3. (SBU) Uwe Berlinghoff, Opel's Director of Government Relations, reflected the dark mood at the company in a May 8 meeting with Econoff. Noting that "nothing has been decided," Berlinghoff discounted press reports of an imminent Fiat takeover, saying "nothing is certain and any outcome is months away." He was sceptical about Marchionne's plans, saying they may never see the light of day as "there are lots of technical problems to be worked out." Berlinghoff reported that Marchionne had quietly lobbied politicians from states where Opel is based, such as Hesse and Thuringia. In Berlinghoff's view, the Fiat take-over bid is a high priority for the Italian government, as indicated by the involvement of the Italian Ambassador in every meeting.

Fiat Not the Only Show in Town

¶4. (SBU) Berlinghoff pointed out that there are several bidders in addition to Fiat. Canadian parts manufacturer Magna and its Russian partner Oleg Deripaska had hoped to purchase "less than 20 percent" of Opel. On May 12, however, sources reported that while Magna would continue to bid for a share of below 20 percent, its Russian partners, Deripaska's auto manufacturer Gaz and the state bank Sberbank, would increase their overall stake to over 30 percent,

giving the consortium a controlling interest. Without naming names, Berlinghoff said the biggest players are making quiet bids and not getting into the press. Latest press reports say U.S. investor Ripplewood has joined the list of bidders.

It's All a Question of Time and Money

15. (SBU) Berlinghoff confirmed that Opel is in poor financial shape. Because of Germany's "wrecking premium" (a 2500 Euro incentive to scrap older cars), Opel's German market share increased from 7 to 11 percent. However, its sales in other countries have taken a severe pounding. In Berlinghoff's view, only German government funding can avert "catastrophe," should GM go bankrupt at the end of May. Creditors could press for the immediate payment of 1.3 billion Euros in debts, but the company would not be able to obtain commercial loans. Despite this, Berlinghoff saw no signs that Berlin will provide the needed funds now. He lamented that while the U.S. Treasury Department is working closely with GM to address its troubles, it has not taken Opel into account. The German Government Task Force is having difficulty in obtaining timely decisions from the Treasury because of its focus on GM operations in the US and its apparent lack of staff, he had heard. Berlinghoff emphasized that time is running out for Opel. It needs months to nail down a buyer and put together a revival plan, but the company has no cash and mountains of debt in the interim.

The German Government's Role

16. (SBU) Berlinghoff confirmed press reports that SPD Chancellor Candidate, Foreign Minister Frank-Walter Steinmeier, has a 14 point

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plan for Opel, laying out conditions for potential buyers to receive Berlin's approval. Berlinghoff dismissed the plan as little more than throwaways conceived to attract votes in an election year, but the plan's emphasis on guaranteeing jobs and preventing the closure of Opel factories provoked a sharp rejoinder from the EU Commission on May 12. The EU pointed out that its regulations require all member states with Opel plants to coordinate rescue plans with Brussels.

17. (U) On May 14, leading Cabinet Ministers and Chancellor Merkel agreed to Economic Minister zu Guttenberg's proposal to create a trust to provide approximately 1.2 billion Euro to Opel over should GM become insolvent. Opel shares deposited with the trustee would act as security for the loans. The trust would exist only until Opel's future is decided. To activate the trust, a private investor must submit a substantive proposal by Wednesday, May 20. Zu Guttenberg argues that the trust will pose little risk to taxpayers' money. Officials expect at least one substantive bid by May 20.

18. (SBU) Chancellor Merkel and Economics Minister zu Guttenberg have consistently rejected proposals from their SPD coalition partner and the Opel unions calling for the state to buy up Opel shares, and have instead pressed for loan guarantees. The trust solution, which the SPD has signed off on, is meant to provide the impression that the government is not providing direct support to Opel. Hesse Minister President Koch, however, confirmed that state banks such as the Reconstruction Bank and banks owned by Federal states where Opel has plants will finance the loans, which would receive state guarantees. Koch stated he expects tough negotiations with the U.S. government over Opel.

19. (SBU) It is not entirely clear whether the EU would have to authorize the trust, as it would be independently run. However, should the German government feel compelled to openly intervene to save Opel; the EU could assert its power of approval and call for coordination with EU Member States with GM plants.